

**PRAIRIE LAKES
AREA EDUCATION AGENCY 8**

**INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

June 30, 2005

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PRAIRIE LAKES AREA EDUCATION AGENCY 8

OFFICIALS

<i>NAME</i>	<i>TITLE</i>	<i>TERM EXPIRES</i>
Board of Directors		
Warren Clausen	President	2005
Dean Saunders	Vice President	2005
Dr. Craig Newell	Member	2006
Darwin Hopkins	Member	2005
Bruce Bahnson	Member	2006
Ed O’Leary	Member	2006
Floyd Thies	Member	2007
Mike Kohler	Member	2007
Ramon Fisher	Member	2007
Agency		
Dr. L. Kay Forsythe	Chief Administrator	2007
Ginger Hoffman	Chief Administrator Assistant and Board Secretary	2006
Michelle R. Dowd	Business Manager and Board Treasurer	Indefinite



SCHNURR & COMPANY, LLP
Certified Public Accountants and Consultants

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Prairie Lakes Area Education Agency 8
Fort Dodge, Iowa

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund, and the aggregate remaining fund information of Prairie Lakes Area Education Agency 8 as of and for the year ended June 30, 2005, which collectively comprise the Prairie Lakes Area Education Agency 8's basic financial statements listed in the table of contents. These financial statements are the responsibility of Prairie Lakes Area Education Agency 8's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with U. S. generally accepted auditing standard, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund, and the aggregate remaining fund information of Prairie Lakes Area Education Agency 8 at June 30, 2005 and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U. S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated November 10, 2005, on our consideration of Prairie Lakes Area Education Agency 8's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 10 and 29 through 30 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Prairie Lakes Area Education Agency 8's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the one year ended June 30, 2004 (which is not presented herein) and expressed an unqualified opinion on those financial statements. Other supplementary information included in Schedules 1 through 4 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Schnurr & Company, LLP

Fort Dodge, Iowa
November 10, 2005

PRAIRIE LAKES AREA EDUCATION AGENCY 8

MANAGEMENT'S DISCUSSION AND ANALYSIS

Prairie Lakes Area Education Agency 8 provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2005. We encourage readers to consider this information in conjunction with the Agency's financial statements, which follow.

2005 FINANCIAL HIGHLIGHTS

- General Fund revenues increased from \$18,998,784 in fiscal 2004 to \$20,294,857 in fiscal 2005, while General Fund expenditures increased from \$18,715,301 in fiscal 2004 to \$19,169,876 in fiscal 2005. This resulted in an increase in the Agency's General Fund balance from \$3,350,994 for fiscal 2004 to \$4,475,975 for fiscal 2005, a 33 percent increase.
- The increase in General Fund revenues was attributable to an increase in local and federal grant revenue in fiscal 2005. The increase in expenditures was due primarily to an increase in services provided to the local school districts. One reason the General Fund balance increased is because the Agency was not fully staffed in certain key areas. These staffing issues were due to the inability to acquire personnel to satisfy key hard-to-fill positions. Another reason the General Fund balance increased is because the Agency was preparing for the construction of the new facility in Pocahontas, thus non-personnel expenditures were contained. As a result, the Agency did not have to fund a portion of the current year General Fund services from the carryover fund balance.
- Senate File 453 of the 2003 Iowa General Assembly temporarily reduced controlled funding for AEA's by \$10 million. Prairie Lakes Area Education Agency 8's portion of this is \$995,807. This reduction was offset by containment of non-personnel expenses.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

- Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the Agency's financial activities.
- The Government-wide Financial Statements consist of a statement of net assets and a statement of activities. These provide information about the activities of Prairie Lakes Area Education Agency 8 as a whole and present an overall view of the Agency's finances.
- The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the Agency's operations in more detail than the government-wide statements by providing information about the most significant funds.
- Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.
- Required Supplementary Information further explains and supports the financial statements with a comparison of the Agency's budget for the year.

MANAGEMENT'S DISCUSSION AND ANALYSIS

USING THIS ANNUAL REPORT (CONTINUED)

- Other Supplementary Information provides detailed information about the nonmajor funds. In addition, the Schedule of Expenditures of Federal Awards provides details of various federal programs benefiting the Agency.

Reporting the Agency's Financial Activities

Government-wide Financial Statements

The government-wide statements report information about the Agency as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the Agency's assets and liabilities. All of the current year revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid.

The two government-wide statements report the Agency's net assets and how they have changed. Net assets – the difference between the Agency's assets and liabilities – are one way to measure the Agency's financial health or position. Over time, increases or decreases in the Agency's net assets are an indicator of whether financial position is improving or deteriorating, respectively. To assess the Agency's overall health, additional non-financial factors, such as changes in the Agency's property tax base and the condition of its facilities, need to be considered.

In the government-wide financial statements, the Agency's activities are divided into two categories:

- *Governmental activities:* Most of the Agency's basic services are included here, such as regular and special education instruction, student and instructional staff support services and administration. Local school districts, federal and state aid finance most of these activities.
- *Business type activities:* The Agency charges fees to help cover the costs of certain services it provides. The Agency's cooperative purchasing program is included here.

Fund Financial Statements

The fund financial statements provide detailed information about the Agency's funds, focusing on its most significant or "major" funds – not the Agency as a whole. Funds are accounting devices the Agency uses to keep track of specific sources of funding and spending on particular programs. Some funds are required by state law or by bond covenants. The Agency establishes other funds to control and manage money for particular purposes, such as accounting for major construction projects or to show it is properly using certain revenues, such as federal grants.

MANAGEMENT'S DISCUSSION AND ANALYSIS

USING THIS ANNUAL REPORT (Continued)

Reporting the Agency's Financial Activities (Continued)

Fund Financial Statements (Continued)

The Agency has two kinds of funds:

- Governmental funds account for most of the Agency's basic services. These focus on how cash and other financial assets readily converted to cash flow in and out and the balances left at year-end available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the Agency's programs. The Agency's governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, and 3) the Debt Service Fund.

The required financial statements for governmental funds include a balance sheet and a statement of revenues, expenditures and changes in fund balances.

- Proprietary funds account for services for which the Agency charges a fee. Proprietary funds are reported in the same way as the government-wide statements. The Agency's Enterprise Fund, one type of proprietary fund, is the same as its business type activities but provides more detail and additional information, such as cash flows. The Agency currently has one Enterprise Fund, the Cooperative Purchasing Fund.

The required financial statements for proprietary funds include a statement of net assets, a statement of revenues, expenses and changes in fund net assets and a statement of cash flows.

Reconciliations between the government-wide financial statements and the fund financial statements follow the fund financial statements.

MANAGEMENT'S DISCUSSION AND ANALYSIS

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of financial position. Prairie Lakes Area Education Agency 8's net assets at the end of fiscal 2005 totaled approximately \$6.0 million. This compared to approximately \$5.0 million at the end of fiscal 2004. The analysis that follows focuses on the net assets and changes in net assets.

CONDENSED STATE					
	Governmental Activities		Business Type Activities		
	2005	2004	2005	2004	
Assets					
Current and other assets	\$ 7,183	\$ 6,393	\$ -	\$ -	
Capital assets	<u>2,999</u>	<u>3,094</u>	<u>-</u>	<u>-</u>	
Total assets	<u>10,182</u>	<u>9,487</u>	<u>-</u>	<u>-</u>	
Liabilities					
Long-term Liabilities	1,293	1,445	-	-	
Other liabilities	<u>2,862</u>	<u>3,051</u>	<u>-</u>	<u>-</u>	
Total liabilities	<u>4,155</u>	<u>4,496</u>	<u>-</u>	<u>-</u>	
Net Assets					
Invested in capital assets, net of related debt	1,964	1,994	-	-	
Restricted	21	140	-	-	
Unrestricted	<u>4,042</u>	<u>2,857</u>	<u>-</u>	<u>-</u>	
Total net assets	<u>\$ 6,027</u>	<u>\$ 4,991</u>	<u>\$ -</u>	<u>\$ -</u>	

MENT OF NET ASSETS

Total	
2005	2004
\$ 7,183	\$ 6,393
2,999	3,094
10,182	9,487
1,293	1,445
2,862	3,051
4,155	4,496
1,964	1,994
21	140
4,042	2,857
\$ 6,027	\$ 4,991

MANAGEMENT'S DISCUSSION AND ANALYSIS

GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)

The Agency's combined net assets increased by 20%, or approximately \$1,000,000, from fiscal 2004. The increase occurred primarily in governmental activities as a result of the Agency not being fully staffed in certain key areas during the year ended June 30, 2005. The increase in unrestricted net assets was primarily due to the Agency practicing conservative spending in its preparation for the upcoming year's construction project.

The following analysis details the changes in net assets of the Agency's activities:

	CHANGES IN			
	Governmental Activities		Business Type Activities	
	2005	2004	2005	2004
Revenues:				
Program revenues:				
Charges for service	\$ 888	\$ 857	\$ 13	\$ 4
Operating grants and contributions	15,015	13,230	-	-
General revenues:				
Property tax	4,934	5,253	-	-
Unrestricted investment earnings	6	19	-	-
	<u>20,843</u>	<u>19,359</u>	<u>13</u>	<u>4</u>
Program expenses:				
Instruction	731	910	-	-
Student support services	11,022	9,658	-	-
Instructional staff support services	4,491	4,499	-	-
General administration	1,501	996	-	-
Business administration	538	1,206	-	-
Plant operations and maintenance	632	672	-	-
Central and other support services	821	1,237	-	-
Long-term debt interest	71	73	-	-
Non-instructional programs	-	-	13	4
Total program expenses	<u>19,807</u>	<u>19,251</u>	<u>13</u>	<u>4</u>
Increase in net assets	1,036	108	-	-
Net assets beginning of year	<u>4,991</u>	<u>4,883</u>	<u>-</u>	<u>-</u>
Net assets end of year	<u>\$ 6,027</u>	<u>\$ 4,991</u>	<u>\$ -</u>	<u>\$ -</u>

Operating grants and contributions from local, state and federal sources account for 71.9% of the total revenue. The Agency's expenses primarily relate to instruction and support services, which account for 86.1% of the total expenses.

NET ASSETS

Total	
2005	2004
<hr/>	
\$ 1,762	\$ 861
28,245	13,230
10,187	5,253
25	19
20,856	19,363
<hr/>	
731	910
11,022	9,658
4,491	4,499
1,501	996
538	1,206
632	672
821	1,237
71	73
13	4
19,820	19,255
<hr/>	
1,036	108
4,991	4,883
<hr/>	
\$ 6,027	\$ 4,991
<hr/>	

MANAGEMENT'S DISCUSSION AND ANALYSIS

GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)

Governmental Activities

Revenues for governmental activities were \$20,843,601 and expenses were \$19,807,036. In a difficult budget year, the Agency was still able to avoid the use of some of the carryover balances to pay for the additional services offered to and needed by local school districts.

Business Type Activities

Revenues of the Agency's business type activities were \$12,941 and expenses were \$12,941. The Agency's business type activity is the Food Cooperative Purchasing program. Revenues for this activity are comprised of rebates from food vendors. Expenses are for the distribution of these rebates back to the districts.

INDIVIDUAL FUND ANALYSIS

As previously noted, Prairie Lakes Area Education Agency 8 uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The Agency's governmental funds reported combined fund balances of \$4,482,346, above last year's ending fund balances of \$3,476,280. The primary reason for the increase in combined fund balances in fiscal 2005 was due to the Agency not being fully staffed in certain key areas and conservative spending practices.

Governmental Fund Highlights

- The Agency's increasing General Fund financial position is the product of many factors, including an increase in local and federal grant revenue and conservative spending practices. The increase in revenues was still more than able to offset the Agency's increase in General Fund expenditures, enabling the Agency to avoid the use of carryover fund balance to meet its financial obligations during the year.
- The General Fund balance increased from \$3,350,994 to \$4,475,975 due, in part, to the additional local and federal grant revenue.

Proprietary Fund Highlights

- The Food Cooperative Purchasing program net assets remained constant from June 30, 2005 and June 30, 2004 with a balance of zero. The Agency acts as a liaison in passing these rebate dollars back to the local districts and does not charge a fee for these services.

BUDGETARY HIGHLIGHTS

Over the course of the year, the Agency amended its budget one time to reflect additional revenue and expenditures associated with the additional services needed and provided to the local school districts. A schedule showing the original and final budget amounts compared to the Agency's actual financial activity is included in the required supplementary information section of this report.

MANAGEMENT'S DISCUSSION AND ANALYSIS

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2005, the Agency had invested \$2,999,240, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, computers and audio-visual equipment. This is a net decrease of approximately \$95,145 from last year. This decrease was primarily due to the sale of property, and the removal of vehicles during the year.

Prairie Lakes Area Education Agency 8 had depreciation expense of \$206,133 in fiscal 2005 and total accumulated depreciation of \$2,915,752 at June 30, 2005. More detailed information about capital assets is available in Note 3 to the financial statements.

Long-Term Debt

At June 30, 2005, the Agency had \$1,454,145 in long-term debt outstanding compared to \$1,579,789 at June 30, 2004. More detailed information about the Agency's long-term liabilities is available in Note 4 to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

At the time these financial statements were prepared and audited, the Agency was aware of existing circumstances that could significantly affect its financial health in the future:

- The Agency has experienced an annual decrease in the number of students enrolled in local districts for the past several years. That decrease is expected to continue, and since controlled funding is driven by the number of students enrolled, decrease funding from the state is anticipated for the upcoming fiscal year.
- The Agency has been made aware, by the State, that its Part C and Part B 619 grants will be flat funded in 2006-2007, which means no increase in funding. The Agency's largest federal grant, Part B 611, is expected to receive reduced funding in 2006-2007. The State's preliminary projections are that Iowa will receive anywhere from \$100,000 to \$500,000 fewer Part B dollars in the upcoming year.
- The Agency began construction of its new central facility located in Pocahontas, Iowa in October of 2005. Funding of the \$2,490,000 project was financed by the sale of lease certificates. Repayment of principal and interest began in December of 2005 and will continue until June of 2025 with an average yearly payment of \$183,091.

CONTACTING THE AGENCY'S FINANCIAL MANAGEMENT

This financial report is designed to provide the Agency's citizens, taxpayers, customers, investors and creditors with a general overview of the Agency's finances and to demonstrate the Agency's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Business Manager's Office of Prairie Lakes Area Education Agency 8, at 1235 5th Ave South, Fort Dodge, Iowa 50501.

PRAIRIE LAKES AREA EDUCATION AGENCY 8

BASIC FINANCIAL STATEMENTS

STATEMENT OF NET ASSETS

June 30, 2005

	Governmental Activities	Business-Type Activities	Total
Assets			
Cash and pooled investments	\$ 5,379,285	\$ -	\$ 5,379,285
Receivables:			
Accounts	245,245	-	245,245
Due from other governments	889,631	-	889,631
Inventories	136,235	-	136,235
Prepaid expenses	532,294	-	532,294
Capital assets (net of accumulated depreciation)	2,999,240	-	2,999,240
Total assets	10,181,930	-	10,181,930
Liabilities			
Accounts payable	284,425	-	284,425
Salaries and benefits payable	1,791,657	-	1,791,657
Excess of warrants	135,642	-	135,642
Deferred revenue:			
Federal	347,876	-	347,876
Other	140,744	-	140,744
Long-term liabilities:			
Portion due or payable within one year:			
Certificates of participation	70,000	-	70,000
Compensated absences	91,628	-	91,628
Portion due or payable after one year:			
Certificates of participation	965,000	-	965,000
Compensated absences	327,517	-	327,517
Total liabilities	4,154,489	-	4,154,489
Net Assets			
Invested in capital assets, net of related debt	1,964,240	-	1,964,240
Restricted for:			
Debt service	21,288	-	21,288
Unrestricted	4,041,913	-	4,041,913
Total net assets	6,027,441	-	6,027,441
Total liabilities and net assets	\$ 10,181,930	\$ -	\$ 10,181,930

See Notes to Financial Statements.

PRAIRIE LAKES AREA EDUCATION AGENCY 8

STATEMENT OF ACTIVITIES

Year Ended June 30, 2005

	Program Revenues		
	Expenses	Charges for Services	Operating Grants and Contributions
Functions/Programs:			
Governmental Activities:			
Instruction	\$ 731,493	\$ 239,494	\$ 305,465
Student support services	11,021,699	-	12,532,192
Instructional staff support services	4,490,560	335,723	2,001,883
General administration	1,501,268	-	-
Business administration	538,553	-	-
Plant operations and maintenance	631,805	-	-
Central and other support services	821,017	312,987	158,505
Interest on long-term debt	70,641	-	16,726
Total governmental activities	19,807,036	888,204	15,014,771
Business-type Activities:			
Non-instructional programs:			
Cooperative purchasing	12,941	12,941	-
Total	\$ 19,819,977	\$ 901,145	\$ 15,014,771

General Revenues:

Property taxes

Unrestricted investment earnings

Change in net assets

Net assets beginning of year

Net assets end of year

See Notes to Financial Statements.

Exhibit B

Net (Expense) Revenue and Changes in Net Assets		
Governmental Activities	Business-Type Activities	Total
\$ (186,534)	\$ -	\$ (186,534)
1,510,493	-	1,510,493
(2,152,954)	-	(2,152,954)
(1,501,268)	-	(1,501,268)
(538,553)	-	(538,553)
(631,805)	-	(631,805)
(349,525)	-	(349,525)
(53,915)	-	(53,915)
(3,904,061)	-	(3,904,061)
-	-	-
(3,904,061)	-	(3,904,061)
4,934,452	-	4,934,452
6,174	-	6,174
1,036,565	-	1,036,565
4,990,876	-	4,990,876
\$ 6,027,441	\$ -	\$ 6,027,441

PRAIRIE LAKES AREA EDUCATION AGENCY 8

Exhibit C

BALANCE SHEET - GOVERNMENTAL FUNDS

June 30, 2005

	General	Special Revenue Special Education Instruction	Other Nonmajor Governmental Fund	Total
Assets				
Cash and pooled investments	\$ 5,127,514	\$ 110,301	\$ 141,470	\$ 5,379,285
Receivables:				
Accounts	215,609	29,636	-	245,245
Due from other governments	889,631	-	-	889,631
Inventories	136,235	-	-	136,235
Prepaid expenses	516,834	-	15,460	532,294
Total assets	\$ 6,885,823	\$ 139,937	\$ 156,930	\$ 7,182,690
Liabilities and Fund Balances				
Accounts payable	\$ 284,309	\$ 116	\$ -	\$ 284,425
Salaries and benefits payable	1,709,575	82,082	-	1,791,657
Excess of warrants issued over bank balance	-	-	135,642	135,642
Deferred revenue:				
Federal	347,876	-	-	347,876
Iowa	68,088	72,656	-	140,744
Total liabilities	2,409,848	154,854	135,642	2,700,344
Fund balances:				
Reserved for:				
Inventories	136,235	-	-	136,235
Media materials	76,464	-	-	76,464
Prepaid expenses	516,834	-	15,460	532,294
Encumbrances	377,220	-	-	377,220
Certificate of deposit	94,444	-	-	94,444
Unreserved:				
Designated for subsequent year's expenditures	816,144	-	-	816,144
Undesignated	2,458,634	(14,917)	5,828	2,449,545
Total fund balances	4,475,975	(14,917)	21,288	4,482,346
Total liabilities and fund balances	\$ 6,885,823	\$ 139,937	\$ 156,930	\$ 7,182,690

See Notes to Financial Statements.

**RECONCILIATION OF THE BALANCE SHEET--
GOVERNMENTAL FUNDS TO THE STATEMENT OF NET ASSETS
June 30, 2005**

Total governmental fund balances (page 13) \$ 4,482,346

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the funds. The cost of assets is \$5,914,992 and the accumulated depreciation is \$2,915,752.

2,999,240

Long-term liabilities, including capital leases and compensated absences, are not due and payable in the current period and, therefore, are not reported in the funds.

(1,454,145)

Net assets of governmental activities (page 11)

\$ 6,027,441

See Notes to Financial Statements.

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES -- GOVERNMENTAL FUNDS**

Year Ended June 30, 2005

	General	Special Revenue Special Education Instruction	Other Nonmajor Governmental Funds	Total
Revenues:				
Local sources	\$ 5,880,449	\$ 239,494	\$ 16,726	\$ 6,136,669
State sources	6,264,728	305,465	-	6,570,193
Federal sources	8,149,680	-	-	8,149,680
Total revenues	20,294,857	544,959	16,726	20,856,542
Expenditures:				
Current:				
Instruction	188,045	544,959	-	733,004
Student support services	10,999,916	-	-	10,999,916
Instructional staff support services	4,436,652	-	-	4,436,652
General administration	1,621,130	-	-	1,621,130
Business administration	537,537	-	-	537,537
Plant operations and maintenance	526,417	-	-	526,417
Central and other support services	860,179	-	-	860,179
Debt service	-	-	135,641	135,641
Total expenditures	19,169,876	544,959	135,641	19,850,476
Excess (deficiency) of revenues over (under) expenditures	1,124,981	-	(118,915)	1,006,066
Other financing sources (uses):				
Transfers in	-	-	-	-
Transfers out	-	-	-	-
Total financing sources (uses)	-	-	-	-
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	1,124,981	-	(118,915)	1,006,066
Fund balances, beginning of year	3,350,994	(14,917)	140,203	3,476,280
Fund balances, end of year	\$ 4,475,975	\$ (14,917)	\$ 21,288	\$ 4,482,346

See Notes to Financial Statements.

**RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES --
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
Year Ended June 30, 2005**

Net change in fund balances - total governmental funds (page 15) \$ 1,006,066

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the estimated useful lives of the assets. Depreciation expense exceeded capital outlay in the current year, as follows:

Expenditures for capital assets	\$ 192,416	
Depreciation expense	<u>(206,133)</u>	(13,717)

In the Statement of Activities, the loss on the disposition of capital assets is reported, whereas in the governmental funds, the proceeds from the sale increase financial resources.	(81,428)
--	----------

Repayment of long-term debt principal is an expenditure in the governmental funds, but reduces long-term liabilities in the statement of net assets and does not affect the statement of activities.	65,000
--	--------

Compensated absences expense reported in the statement of activities does not require the use of current financial resources and, therefore, is not reported as an expenditure in the governmental funds.	<u>60,644</u>
---	---------------

Change in net assets of governmental activities (page 12)	<u><u>\$ 1,036,565</u></u>
--	----------------------------

See Notes to Financial Statements.

PRAIRIE LAKES AREA EDUCATION AGENCY 8

Exhibit G

STATEMENT OF NET ASSETS - PROPRIETARY FUND TYPE
Year Ended June 30, 2005

ASSETS

Cash and cash equivalents
Due from other governments
Inventories
Total

**Cooperative
Purchasing**

\$ -
-
-

-

LIABILITIES

Accounts payable

-

NET ASSETS

Unrestricted

\$ -

See notes to financial statements.

PRAIRIE LAKES AREA EDUCATION AGENCY 8

Exhibit H

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
NET ASSETS - PROPRIETARY FUND TYPE
Year Ended June 30, 2005**

	<u>Cooperative Purchasing</u>
Operating revenues:	
Charges for service	\$ 12,941
Operating expenses:	
Non-instructional programs:	
Supplies and materials	<u>(12,941)</u>
Total expenditures	<u>-</u>
Net change	-
Net assets, beginning of year	<u>-</u>
Net assets, end of year	<u><u>\$ -</u></u>

See Notes to Financial Statements.

PRAIRIE LAKES AREA EDUCATION AGENCY 8

Exhibit I

**STATEMENT OF CASH FLOWS - PROPRIETARY FUND TYPE
Year Ended June 30, 2005**

	<u>Cooperative Purchasing</u>
Cash Flows from Operating Activities	
Cash received from users	\$ 12,941
Cash paid to suppliers	<u>(12,941)</u>
Net cash used by operating activities	-
Cash and cash equivalents beginning of year	<u>-</u>
Cash and cash equivalents end of year	<u><u>\$ -</u></u>
See Notes to Financial Statements.	

PRAIRIE LAKES AREA EDUCATION AGENCY 8

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies

Prairie Lakes Area Education Agency 8 is an intermediate school corporation established to identify and serve children who require special education. The Agency also provides media services and education support services. These programs and support services are provided to 48 school districts and private schools in a 14-county area. The Agency is governed by a Board of Directors whose members are elected on a non-partisan basis.

A. Reporting entity:

For financial reporting purposes, Prairie Lakes Area Education Agency 8 has included all funds, organizations, account groups, agencies, boards, commissions and authorities. The Agency has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the Agency are such that exclusion would cause the Agency's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the Agency to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the Agency. The Prairie Lakes Area Education Agency 8 has no component units which meet the Governmental Accounting Standards Board criteria.

B. Basis of Presentation:

Government-wide Financial Statements – The statement of net assets and the statement of activities report information on all of the activities of the Agency. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of net assets presents the Agency's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributable to the acquisition, construction, or improvement of those assets.

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources that are imposed by management, but can be removed or modified.

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

B. Basis of Presentation (continued):

Government-wide Financial Statements (continued) – The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest that are restricted to meeting the operational or capital requirements of a particular function. Unrestricted interest income and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements – Separate financial statements are provided for governmental and proprietary funds. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other nonmajor governmental funds.

The Agency reports the following major governmental funds:

The General Fund is the general operating fund of the Agency. All general revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenditures, including instructional, support and other costs.

The Special Revenue, Special Education Instruction Fund is used to account for program where the Area Education Agency employs teachers to provide instruction to special education pupils. The actual costs of providing instructional services to the pupils are billed to the individual school districts.

The Agency's proprietary fund is the Enterprise, Cooperative Purchasing Fund. This fund is used to account for the cooperative purchasing activities for local school districts and activities that are performed as a service to staff on a cost-reimbursement basis.

C. Measurement Focus and Basis of Accounting:

The Government-wide financial statements and the proprietary fund financial statements are reported using the economic resources measurement focus. The Government-wide and proprietary fund financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

C. Measurement Focus and Basis of Accounting (continued):

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Agency considers revenues to be available if they are collected within 60 days after year end.

Intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the Agency.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

The proprietary fund of the Agency applies all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Agency's enterprise fund is charged to customers for services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

D. Assets, Liabilities and Fund Equity:

Cash and Pooled Investments – Cash includes amounts in demand deposits and money market funds. Investments are stated at fair value except for the investment in the Iowa Schools Joint Investment Trust which is valued at amortized cost.

Inventories – Inventories are stated at cost using the first-in, first-out method and consist of expendable supplies and materials. The cost of these items is recorded as an expenditure at the time of consumption.

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

D. Assets, Liabilities and Fund Equity (continued):

Capital Assets – Capital assets, which include property, furniture and equipment, are reported in the applicable governmental or business-type activities column in the Government-wide Statement of Net Assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the Agency as assets with initial, individual costs in excess of the following thresholds and estimated useful lives in excess of two years.

Land	No lower limit
Buildings	\$ 5,000
Vehicles	5,000
Furniture and equipment	5,000
Library books	Aggregated annual purchases

Property, furniture and equipment are depreciated using the straight-line method of depreciation over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful Lives (In Years)</u>
Buildings	50
Vehicles	5
Furniture and equipment	10
Library books	5

Salaries and Benefits Payable – Payroll and related expenses for teachers with annual contracts corresponding to the current school year, which are payable in July and August, have been accrued as liabilities.

Deferred Revenue – Deferred revenue represents an excess of cash advances by the funding source over accrued expenditures at year end.

Compensated Absences – Agency employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use or for payment upon termination, death or retirement. A liability has been recorded in the statement of net assets representing the Agency's commitment to fund non-current compensated absences. This liability has been computed based on rates of pay in effect at June 30, 2005. The compensated absences liability attributable to the governmental activities will be paid primarily by the General and Special Revenue Funds.

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

D. Assets, Liabilities and Fund Equity (continued):

Long-term Obligations – In the Government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column in the statement of net assets.

Fund Balances – In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Restricted Net Assets – In the Government-wide statement of net assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

Note 2. Cash and Pooled Investments

The Agency's deposits in banks at June 30, 2005 were entirely covered by Federal depository insurance or by the State sinking fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The Agency is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Directors; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The Agency has investments in the Iowa Schools Joint Investment Trust Diversified Portfolio which are valued at an amortized cost of \$20,318 pursuant to Rules 2a-7 under the Investment Company Act of 1940.

Interest Rate Risk: The Agency's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days but the maturities shall be consistent with the needs and use of the Agency.

Credit Risk: the investment in the Iowa Schools Joint Investment Trust is rated AAA by Moody's Investors Service.

NOTES TO FINANCIAL STATEMENTS

Note 3. Capital Assets

Capital assets activity for the year ended June 30, 2005 is as follows:

	Balance Beginning of Year	Additions	Deletions	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 117,912			\$ 117,912
Total capital assets not being depreciated	117,912	-	-	117,912
Capital assets being depreciated:				
Buildings	3,170,550	-	48,884	3,121,666
Furniture and equipment	198,297	-	-	198,297
Vehicles	78,455	40,336	14,655	104,136
Library books and films	2,287,551	152,080	66,650	2,372,981
Total capital assets being depreciated	5,734,853	192,416	130,189	5,797,080
Less accumulated depreciation for:				
Buildings	1,107,919	59,411	27,193	1,140,137
Furniture and equipment	158,246	7,515	-	165,761
Vehicles	65,275	16,647	13,655	68,267
Library books and films	1,426,940	122,560	7,913	1,541,587
	2,758,380	206,133	48,761	2,915,752
Total capital assets being depreciated, net	2,976,473	(13,717)	81,428	2,881,328
Governmental activities capital assets, net	\$ 3,094,385	\$ (13,717)	\$ 81,428	\$ 2,999,240

Depreciation expense was charged to functions of the Agency as follows:

Governmental activities:	
Instruction	\$ -
Student support services	3,935
Instructional staff support services	122,560
General administration	608
Business administration	-
Plant operations and maintenance	62,383
Central and other support services	16,647
Total governmental activities depreciation expense	\$ 206,133

NOTES TO FINANCIAL STATEMENTS

Note 4. Changes in Long-term Liabilities

A summary of changes in long-term liabilities for the year ended June 30, 2005 is as follows:

	Balance Beginning of Year	Additions	Reductions	Balance End of Year	Due Within One Year
Certificates of Participation	\$ 1,100,000	\$ -	\$ 65,000	\$ 1,035,000	\$ 70,000
Compensated absences	479,789	45,765	106,409	419,145	91,628
	<u>\$ 1,579,789</u>	<u>\$ 45,765</u>	<u>\$ 171,409</u>	<u>\$ 1,454,145</u>	<u>\$ 161,628</u>

Certificates of Participation:

The Agency has sold Certificates of Participation for the acquisition, the remodeling and improvement of, and the installation of furnishings and equipment in an administrative center for a total of \$1,500,000. The Certificates of Participation represent an ownership interest of the certificate holder in a lease purchase agreement. The certificates mature over a period of twenty years with an interest rate ranging from 5.85% to 6.75%. The following is a schedule by year of the future minimum payments required:

Year Ending June 30,	Principal	Interest	Total
2006	\$ 70,000	\$ 62,613	\$ 132,613
2007	75,000	57,719	132,719
2008	75,000	52,994	127,994
2009	80,000	48,400	128,400
2010	85,000	43,450	128,450
Thereafter	650,000	130,112	780,112
	<u>\$ 1,035,000</u>	<u>\$ 395,288</u>	<u>\$ 1,430,288</u>

Payments for the Certificates of Participation for the year ended June 30, 2005, including interest, totaled \$134,441.

NOTES TO FINANCIAL STATEMENTS

Note 5. Operating Leases

The Agency has leased various equipment and facilities within the area to support and house the different divisions of the Agency. These leases have been classified as operating leases and accordingly, all rents are charged to expenditures as incurred. The leases expire between June 30, 2005 and June 30, 2007. Certain leases are renewable for additional periods. Some of the leases also require the payment of normal maintenance and insurance on the properties. In most cases, management expects that the leases will be renewed or replaced by other leases.

The following is a schedule by year of future minimum rental payments required under operating leases which have initial or remaining noncancelable lease terms in excess of one year as of June 30, 2005.

<u>Year Ending June 30,</u>	<u>Amount</u>
2006	\$ 162,737
2007	27,018
2008	-
2009	-
2010	-
Thereafter	-
	<u><u>\$ 189,755</u></u>

The total rental expenditures for the year ended June 30, 2005 for all operating leases, except those with terms of a month or less that were not renewed, was \$165,237.

Note 6. Lease of Office Space

The Agency, as lessor, leases 55% of a building as office space to several entities. The lease terms expire in various years through 2012 and range from \$6,000 to \$30,635 per lease annually.

At June 30, 2005 future minimum lease payments receivable under noncancelable operating leases are as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2006	\$ 65,435
2007	57,435
2008	30,635
2009	30,635
2010	30,635
Thereafter	61,271
	<u><u>\$ 276,046</u></u>

NOTES TO FINANCIAL STATEMENTS

Note 7. Pension and Retirement Benefits

The Agency contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P. O. Box 9117, Des Moines, Iowa 50306-9117.

Plan members are required to contribute 3.70% of their annual covered salary and the Agency is required to contribute 5.75% of annual covered payroll. Contribution requirements are established by State statute. The Agency's contribution to IPERS for the years ended June 30, 2005 and 2004 were \$611,571 and \$509,470, respectively, equal to the required contribution for each year.

Note 8. Risk Management

Prairie Lakes Area Education Agency 8 is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The Agency assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past two fiscal years.

Note 9. Deficit Fund Balance

The Special Revenue Fund, Special Education Instruction had a deficit balance of \$14,917 at June 30, 2005. The deficit balance was a result of under-charging of expenditures to the school districts. The deficit will be eliminated through a rate increase established in July 2005.

Note 10. Subsequent Events

Subsequent to year-end, Prairie Lakes Area Education Agency 8 accepted and approved the lowest base bid in the amount of \$1,940,000 for the construction of the Pocahontas office facility. Construction is to commence October, 2005 with an anticipated completion date of July, 2006.

Prairie Lakes Area Education Agency 8 authorized the sale and delivery of certificates of participation, not to exceed \$3,500,000, pursuant to lease purchase agreement and trust agreement with Wells Fargo Bank, N.A., as lessor and trustee. The sale will provide for the refunding of current lease purchase obligations and for the acquisition, remodeling and construction of administrative offices in Pocahontas.

PRAIRIE LAKES AREA EDUCATION AGENCY 8

REQUIRED SUPPLEMENTARY INFORMATION

PRAIRIE LAKES AREA EDUCATION AGENCY 8

**SCHEDULE OF REVENUES, EXPENDITURES/EXPENSES AND
CHANGES IN BALANCES -- BUDGET AND ACTUAL --**

ALL GOVERNMENTAL FUNDS AND PROPRIETARY FUND

Required Supplementary Information

Year Ended June 30, 2005

	Governmental Fund Types Actual	Proprietary Fund Types Actual	Total Actual
Revenues:			
Local sources	\$ 6,136,669	\$ 12,941	\$ 6,149,610
State sources	6,570,193	-	6,570,193
Federal sources:	8,149,680	-	8,149,680
Total revenues	20,856,542	12,941	20,869,483
Expenditures/Expenses:			
Current:			
Instruction	733,004	-	733,004
Student support services	10,999,916	-	10,999,916
Instructional staff support services	4,436,652	-	4,436,652
General administration	1,621,130	-	1,621,130
Business administration	537,537	-	537,537
Plant operations and maintenance	526,417	-	526,417
Central and other support services	860,179	-	860,179
Noninstitutional programs	-	12,941	12,941
Debt service	135,641	-	135,641
Total expenditures/expenses	19,850,476	12,941	19,863,417
Excess of revenues over expenditures/expenses	1,006,066	-	1,006,066
Other financing uses, net	-	-	-
Excess of revenues and other financing sources over expenditures/expenses and other financing uses	1,006,066	-	1,006,066
Balance, beginning of year	3,476,280	-	3,476,280
Balance, end of year	\$ 4,482,346	\$ -	\$ 4,482,346

Budget		Final to Actual Variance Favorable (Unfavorable)
Original	Final	
\$ 5,847,339	\$ 6,386,373	\$ (236,763)
7,230,778	6,691,744	(121,551)
7,082,245	7,082,245	1,067,435
20,160,362	20,160,362	709,121
848,542	848,542	115,538
10,615,434	10,615,434	(384,482)
4,693,074	4,693,074	256,422
1,751,237	1,751,237	130,107
951,901	951,901	414,364
520,649	520,649	(5,768)
779,525	779,525	(80,654)
-	-	(12,941)
-	-	(135,641)
20,160,362	20,160,362	296,945
-	-	1,006,066
-	-	-
-	-	1,006,066
3,333,441	2,415,121	1,061,159
\$ 3,333,441	\$ 2,415,121	\$ 2,067,225

NOTE TO REQUIRED SUPPLEMENTARY INFORMATION – BUDGETARY REPORTING

This budgetary comparison is presented as Required Supplementary Information in accordance with Governement Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

The Agency's Board of Directors annually prepares a budget on a basis consistent with accounting principles generally accepted in the United States of America. Although the budget document presents functional disbursements by fund, the legal level of control is at the total expenditure/expense level, not at the fund or fund type level. After required public notice and hearing in accordance with the Code of Iowa, the Board submits its budget to the State Board of Education. The State Board reviews the proposed budget and either grants approval or returns it without approval with comments. Any unapproved budget must be resubmitted to the State Board for final approval. The budget may be amended during the year utilizing procedures prescribed by the State Board. Budgetary control is based on total expenditures.

OTHER SUPPLEMENTARY INFORMATION

PRAIRIE LAKES AREA EDUCATION AGENCY 8

Schedule 1

**COMBINING BALANCE SHEETS
NONMAJOR GOVERNMENTAL FUND
Year Ended June 30, 2005**

		<u>Debt Service</u>
Assets		
Cash and pooled investments		\$ 141,470
Prepaid expense		<u>15,460</u>
Total assets		<u><u>\$ 156,930</u></u>
Liabilities and Fund Balances		
Liabilities:		
Excess of warrants issued over bank balance		<u>\$ 135,642</u>
Total liabilities		<u>135,642</u>
Fund balances:		
Reserved for:		
Prepaid expenses		15,460
Unreserved:		
Undesignated		<u>5,828</u>
Total fund balances		<u>21,288</u>
Total liabilities and fund balances		<u><u>\$ 156,930</u></u>

See Accompanying Independent Auditor's Report.

PRAIRIE LAKES AREA EDUCATION AGENCY 8

Schedule 2

**COMBINED SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUND
Year Ended June 30, 2005**

	<u>Debt Service</u>
Revenues:	
Local sources	<u>\$ 16,726</u>
Total revenues	<u>16,726</u>
Expenditures:	
Debt service	<u>135,641</u>
Total expenditures	<u>135,641</u>
(Deficiency) of revenues (under) expenditures	(118,915)
Fund balances beginning of year	<u>140,203</u>
Fund balances end of year	<u><u>\$ 21,288</u></u>

See accompanying Independent Auditor's Report.

**SCHEDULE OF REVENUES BY SOURCE AND EXPENDITURES
BY FUNCTION -- ALL GOVERNMENTAL FUNDS
For the Last Two Years**

		Modified Accrual Basis	
		Years ended June 30,	
		2005	2004
Revenues:			
Local	\$	6,136,669	\$ 5,861,125
State		6,570,193	6,120,635
Federal		8,149,680	7,381,258
Total		\$ 20,856,542	\$ 19,363,018
Expenditures:			
Current:			
Instruction	\$	733,004	\$ 898,938
Student support services		10,999,916	9,657,645
Instructional staff support services		4,436,652	1,938,988
General administration		1,621,130	985,195
Business administration		537,537	1,179,877
Plant operations and maintenance		526,417	672,402
Central and other support services		860,179	3,753,846
Debt service		135,641	133,288
Total		\$ 19,850,476	\$ 19,220,179

See accompanying independent auditor's report.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2005

Project Title	CFDA Number	Pass-through Grantor's Number	Expenditures
U. S. Department of Education:			
Passed-through Iowa Department of Education:			
Education of Handicapped Act (EHA) Part B - 94-142:			
Special Education - Grants to States (IDEA, Part 3):			
Early Childhood Education for the Handicapped	84.027*	40508	\$ 4,741,199
Early Childhood Education for the Handicapped	84.027*	5K82-08	1,780,100
Special Education - Preschool Grants (IDEA Preschool)- Section 619, Age 3-5	84.173	04619-08	306,666
Special Education - Grants for Infants and Families with Disabilities - 94-142 Part C:			
IDEA, Part C, Infants and Toddlers	84.181	C04-08	199,927
Special Education - Technical Assistance and Dissemination to Improve Services and Results for Children with Disabilities - 94-142 Part D:			
IDEA, Part D	84.326	4527	8,500
Special Education - Grants to States (IDEA, Part 3) - Miscellaneous 94-142:			
Diagnostic Evaluation Program	84.027*	4K71-08	3,525
Supplemental Support Services	84.027*	4K72-08	271,707
Learning Supports (Success 4)	84.027*	4K75-08	110,209
Parent Educator Project	84.027*	47408	94,373
Para-Educator Project	84.027*	4K76-08	16,311
Occupational Therapists Staff Development Conference	84.027*	50405	933
Early Childhood Language for Literacy Project	84.027*	16106	3,000
Employee Preparation Study	84.027*	51105	3,000
Conflict Resolution	84.027*	4K07-08	13,741
Iowa Quality Preschool Standards	84.323	G-5PI3-8	13,081
Reading First	84.357		21,452
Service Learning	94.004	05SL008	2,000
Title III English Language/ELL	84.365		15,003
Enhancing Education Through Technology	84.318		422,767
Evaluating State Education Technology Programs	84.318		95,934

(Continued on next page)

PRAIRIE LAKES AREA EDUCATION AGENCY 8

Schedule 4
(Continued)SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2005

Project Title	CFDA Number	Pass-through Grantor's Number	Expenditures
U. S. Department of Education:			
Passed-through Iowa Department of Education:			
Public Law 103-761:			
Title I Accountability Grant	84.348		\$ 2,460
Received from the University of Iowa:			
Middle School Text Reader Project	84.027*		23,792
Total Expenditures of Federal Awards			<u>\$ 8,149,680</u>

* Total expenditures for CFDA Number 84.027 were \$7,061,890.

Basis of Presentation: The Schedule of Expenditures of Federal Awards includes the federal grant activity of Prairie Lakes Area Education Agency 8 and is presented on the modified accrual basis. The information on this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

See accompanying Independent Auditor's Report.



SCHNURR & COMPANY, LLP
Certified Public Accountants and Consultants

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE
AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS**

To the Board of Directors of
Prairie Lakes Area Education Agency 8
Fort Dodge, Iowa

We have audited the accompanying financial statements the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Prairie Lakes Area Education Agency 8, as of and for the year ended June 30, 2005, which collectively comprise the Agency's basic financial statements listed in the table of contents, and have issued our report thereon dated November 10, 2005. We conducted our audit in accordance with U. S. generally accepted auditing standards, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Prairie Lakes Area Education Agency 8's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Prairie Lakes Area Education Agency's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part II of the accompanying Schedule of Findings and Questioned Costs.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that could be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe item II-A-05 is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Prairie Lakes Area Education Agency 8's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part IV of the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about the Agency's operations for the year ended June 30, 2005 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Agency. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes. There were no statutory comments in the prior year.

This report, a public record by law, is intended solely for the information and use of the officials, employees and constituents of the Prairie Lakes Area Education Agency 8, and other parties to whom Prairie Lakes Area Education Agency 8 may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Prairie Lakes Area Education Agency 8 during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Schnurr & Company, LLP

Fort Dodge, Iowa
November 10, 2005



SCHNURR & COMPANY, LLP
Certified Public Accountants and Consultants

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH
REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM
AND INTERNAL CONTROL OVER COMPLIANCE
IN ACCORDANCE WITH OMB CIRCULAR A-133**

To the Board of Directors of
Prairie Lakes Area Education Agency 8
Fort Dodge, Iowa

Compliance

We have audited the compliance of Prairie Lakes Area Education Agency 8, with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2005. Prairie Lakes Area Education Agency 8's major federal programs are identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grant agreements applicable to each of its major federal programs is the responsibility of Prairie Lakes Area Education Agency 8's management. Our responsibility is to express an opinion on Prairie Lakes Area Education Agency 8's compliance based on our audit.

We conducted our audit of compliance in accordance with U. S. generally accepted auditing standards, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Prairie Lakes Area Education Agency 8's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Prairie Lakes Area Education Agency 8's compliance with those requirements.

In our opinion, Prairie Lakes Area Education Agency 8 complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2005.

Internal Control Over Compliance

The management of Prairie Lakes Area Education Agency 8 is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grant agreements applicable to federal programs. In planning and performing our audit, we considered Prairie Lakes Area Education Agency 8's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect Prairie Lakes Area Education Agency's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grant agreements. A reportable condition is described as item III-A-05 in the accompanying Schedule of Findings and Questioned Costs.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that non-compliance with applicable requirements of laws, regulations, contracts and grant agreements caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe item III-A-05 is a material weakness.

This report, a public record by law, is intended solely for the information and use of the officials, employees and constituents of the Prairie Lakes Area Education Agency 8 and other parties to whom Prairie Lakes Area Education Agency 8 may report, including federal award agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

Schnurr & Company, LLP

Fort Dodge, Iowa
November 10, 2005

PRAIRIE LAKES AREA EDUCATION AGENCY 8

Schedule of Findings and Questioned Costs Year Ended June 30, 2005

Part I: Summary of the Independent Auditor's Results

- (a) An unqualified opinion was issued on the financial statements.
- (b) A reportable condition in internal control over financial reporting was disclosed by the audit of the financial statements, including a material weakness.
- (c) The audit did not disclose any noncompliance which is material to the financial statements.
- (d) A reportable condition in internal control over major programs was disclosed by the audit of financial statements, including a material weakness.
- (e) An unqualified opinion was issued on compliance with requirements applicable to each major program.
- (f) The audit did not disclose any audit findings which are required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) The major program was CFDA Number 84.027 – Special Education – Grants to States
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) Prairie Lakes Area Education Agency 8 did not qualify as a low-risk auditee.

Part II: Findings Related to the General Purpose Financial Statements:

Instances of Non-Compliance:

No matters were reported.

Reportable Conditions:

II-A-05 Segregation of Duties: One important aspect of the internal control structure is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that cash receipts listing is not prepared separate from the cash receipt function. In addition, signature stamps are maintained by individuals responsible for check preparation.

Recommendation: We realize that with a limited number of office employees, segregation of duties is difficult. However, the Agency should review its operating procedures to obtain the maximum internal control possible under the circumstances.

Response: We will investigate available alternatives and implement as soon as possible.

Conclusion: Response accepted.

PRAIRIE LAKES AREA EDUCATION AGENCY 8

**Schedule of Findings and Questioned Costs (Continued)
Year Ended June 30, 2005**

Part III: Findings and Questioned Costs For Federal Awards:

Instances of Non-Compliance:

No matters were reported.

Reportable Conditions:

All programs displayed on the schedule of expenditures of Federal awards.

III-A-05 Segregation of Duties: The Agency did not properly segregate record keeping and reconciling functions for cash receipts, including those related to Federal programs. See audit finding II-A-05.

Part IV: Other Findings Related to Required Statutory Reporting:

IV-A-05 Official Depositories: A resolution naming official depositories has been adopted by the Board. The maximum deposit amounts stated in the resolution were exceeded during the year ended June 30, 2005.

Recommendation: A new resolution should be approved in amounts sufficient to cover anticipated deposits for all depositories.

Response: The maximum deposit amounts stated in the resolution will be reviewed and updated as considered appropriate.

Conclusion: Response accepted.

IV-B-05 Budget: Expenditures during the year ended June 30, 2005 did not exceed the amount budgeted.

IV-C-05 Questionable Expenditures: No expenditures that we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted.

IV-D-05 Travel Expense: No expenditures of Agency money for travel expenses of spouses of Agency officials or employees were noted.

IV-E-05 Business Transactions: No business transactions between the Agency and Agency officials or employees were noted.

IV-F-05 Bond Coverage: Surety bond coverage of Agency officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure that coverage is adequate for current operations.

IV-G-05 Board Minutes: No transactions were found that we believe should have been approved in the Board minutes, but were not.

PRAIRIE LAKES AREA EDUCATION AGENCY 8

**Schedule of Findings and Questioned Costs (Continued)
Year Ended June 30, 2005**

Part IV: Other Findings Related to Required Statutory Reporting (Continued):

IV-H-05 Deposits and Investments: No instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa were noted.

IV-I-05 Certified Annual Report: The Certified Annual Report was filed with the Department of Education timely. However, we noted differences in the amounts reported.

Recommendation: The Certified Annual Report should be amended to agree with the audit report.

Response: We will amend the report.

Conclusion: Response accepted.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the Prairie Lakes Area Education Agency 8 during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Schnurr & Company, LLP

Fort Dodge, Iowa
November 10, 2005